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State and Local Governments

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Audit and Accounting Guide

State and Local Governments

(Updated as of March 1, 2019)

Prepared by the State and Local Government Audit Guide Revision Task Force.

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Preface

About AICPA Guides

This AICPA Guide has been developed by the AICPA State and Local Government Audit Guide Revision Task Force (task force) to assist practitioners in performing and reporting on their audit engagements and to assist management in the preparation of their financial statements in conformity with U.S. generally accepted accounting principles (GAAP).

An AICPA Guide containing auditing guidance related to generally accepted auditing standards (GAAS) is recognized as an interpretive publication as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.¹ Interpretive publications are recommendations on the application of GAAS in specific circumstances, including engagements for entities in specialized industries.


¹ All AU-C sections can be found in AICPA *Professional Standards*.

Interpretive publications are issued under the authority of the AICPA Auditing Standards Board (ASB) after all ASB members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with GAAS. The members of the ASB have found the auditing guidance in this guide to be consistent with existing GAAS.

Although interpretive publications are not auditing standards, AU-C section 200 requires the auditor to consider applicable interpretive publications in planning and performing the audit because interpretive publications are relevant to the proper application of GAAS in specific circumstances. If the auditor does not apply the auditing guidance in an applicable interpretive publication, the auditor should document how the requirements of GAAS were complied within the circumstances addressed by such auditing guidance.

Throughout this guide, when appropriate, reference is made to Q&A sections in *Technical Questions and Answers* (Q&A). Q&A sections are other auditing publications. AU-C section 200 indicates that in applying the

auditing guidance included in an other auditing publication, the auditor should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. Other auditing publications have no authoritative status; however, they may help the auditor understand and apply GAAS. The auditor is not expected to be aware of the full body of other auditing publications. Although the auditor


determines the relevance of these publications in accordance with AU-C section 200, paragraph .28 , the auditor may presume that other auditing publications published by the Association of International Certified Professional Accountants that have been reviewed by the Audit and Attest Standards staff are appropriate.

These other auditing publications are listed in AU-C appendix F, "Other Auditing Publications .

The ASB is the designated senior committee of the AICPA authorized to speak for the AICPA on all matters related to auditing. Conforming changes made to the auditing guidance contained in this guide are approved by the ASB Chair (or his or her designee) and the Director of the AICPA Audit and Attest Standards Staff. Updates made to the auditing guidance in this guide exceeding that of conforming changes are issued after all ASB members have been provided an opportunity to consider and comment on whether the guide is consistent with existing GAAS.

Any auditing guidance in a guide appendix or chapter appendix in a guide, or in an exhibit, although not authoritative, is considered an "other auditing publication." In applying such guidance, the auditor should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. Although the auditor determines the relevance of other auditing guidance, auditing guidance in a guide appendix or exhibit has been reviewed by the AICPA Audit and Attest Standards staff and the auditor may presume that it is appropriate.

An AICPA Guide containing attestation guidance is recognized as an interpretive publication as defined

in AT-C section 105, *Concepts Common to All Attestation Engagements* .² Interpretive publications are recommendations on the application of Statements on Standards for Attestation Engagements (SSAEs or attestation standards) in specific circumstances, including engagements for entities in specialized industries. Interpretive publications are issued under the authority of the ASB. The members of the ASB have found the attestation guidance in this guide to be consistent with existing SSAEs.

² All AT-C sections can be found in AICPA *Professional Standards*.

A practitioner should be aware of and consider the guidance in this AICPA Guide applicable to his or her attestation engagement. If the practitioner does not apply the attestation guidance included in an applicable interpretive publication, the practitioner should document how the requirements of the SSAE were complied within the circumstances addressed by such attestation guidance.

Any attestation guidance in a guide appendix or chapter appendix in a guide, or in an exhibit, although not authoritative, is considered an "other attestation publication." In applying such guidance, the practitioner should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the engagement. Although the practitioner determines the relevance of other attestation guidance, such guidance in a guide appendix or exhibit has been reviewed by the AICPA Audit and Attest Standards staff and the practitioner may presume that it is appropriate.

The ASB and AICPA Accounting and Review Services Committee (ARSC) are the designated senior committees of the AICPA authorized to speak for the AICPA on all matters related to attestation in their respective areas of responsibility. Conforming changes made to the attestation guidance contained in this guide are approved by the ASB Chair (or his or her designee) and the Director of the AICPA Audit and Attest Standards Staff. Updates made to the attestation guidance in this guide exceeding that of conforming changes are issued after all ASB members have been provided an opportunity to consider and comment on whether the guide is consistent with the SSAEs.

The Financial Reporting Executive Committee (FinREC) is the designated senior committee of the AICPA authorized to speak for the AICPA in the areas of financial accounting and reporting. Conforming changes made

to the financial accounting and reporting guidance contained in this guide are approved by the FinREC Chair (or his or her designee). Updates made to the financial accounting and reporting guidance in this guide exceeding that of conforming changes are approved by the affirmative vote of at least two-thirds of the members of FinREC.

This guide does the following:

- Identifies certain requirements set forth in GAAP for governmental entities.
- Describes FinREC's understanding of prevalent or sole industry practice concerning certain issues. In addition, this guide may indicate that FinREC expresses a preference for the prevalent or sole industry practice, or it may indicate that FinREC expresses a preference for another practice that is not the prevalent or sole industry practice; alternatively, FinREC may express no view on the matter.
- Identifies certain other, but not necessarily all, industry practices concerning certain accounting issues without expressing FinREC's views on them.
- Provides guidance that has been supported by FinREC on the accounting, reporting, or disclosure treatment of transactions or events that are not set forth in GAAP for governmental entities.

Accounting guidance for governmental entities included in an AICPA Guide, and cleared by GASB, is a source of authoritative GAAP described in category B of the hierarchy of GAAP for state and local governmental entities as defined in GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The accounting provisions of this guide that have been cleared by GASB are formatted in orange font for the reader within the text of the guide and are noted in appendix B, "Category B Guidance." AICPA members should be prepared to justify departures from GAAP as discussed in the "Accounting Principles Rule" (ET sec. 1.320.001 and 2.320.001).³

³ All ET sections can be found in AICPA *Professional Standards*.

AICPA Guides may include certain content presented as "Supplement," "Appendix," or "Exhibit." A supplement is a reproduction, in whole or in part, of authoritative guidance originally issued by a standard setting body (including regulatory bodies) and applicable to entities or engagements within the purview of that standard setter, independent of the authoritative status of the applicable AICPA Guide. Both appendixes and exhibits are included for informational purposes and have no authoritative status.

Purpose and Applicability

The AICPA developed this guide to help auditors understand the GAAP applicable to the financial statements of state and local governments and audit and report on those financial statements in accordance with GAAS. This guide is designed as a tool for auditors of governmental entities of all sizes. The nature, timing, and extent of auditing procedures in a particular engagement are matters of professional judgment and will vary depending upon numerous factors, including the size of the entity and its organizational structure and internal control, materiality considerations, the auditor's assessment of risk, and applicable laws, regulations, and provisions of grants and contracts.

This guide applies to all state and local governments as defined in chapter 1, "Overview and Introduction." Certain other AICPA Guides also apply to audits of certain state and local governments, as discussed in chapter 1. In particular, auditors who perform audits under *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, should refer to the AICPA Audit Guide *Government Auditing Standards and Single Audits*.

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This guide is designed to provide guidance to auditors who are new to state and local governmental accounting and auditing as well as to auditors experienced in state and local governmental accounting and auditing. This guide assumes that the auditor has expertise in accounting and auditing, in general, but not necessarily in the specialized accounting and auditing practices applicable to state and local governments. Therefore, the guide concentrates on the accounting standards and auditing procedures that are unique to or significant for those governments. This guide also is intended to be useful in providing accounting and financial reporting guidance to preparers of governmental financial statements. The guidance presented here is not all inclusive; it is limited to certain matters that warrant special emphasis or that experience has indicated may be useful. Although this guide does not incorporate, repeat, or summarize all authoritative pronouncements that apply to state and local governments, it does consider relevant guidance contained in authoritative pronouncements through those indicated in this preface.

Authoritative pronouncements should be applied based on the effective dates in the pronouncements. The AICPA staff will make conforming changes to this guide annually to incorporate relevant guidance in new accounting and auditing pronouncements. Users of this guide should consider pronouncements issued after those listed in this preface to consider their effect on state and local governments.

Recognition

2019 Guide Edition

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Guidance Considered in This Edition

This edition of the guide has been modified by the AICPA staff to include certain changes necessary due to the issuance of authoritative guidance since the guide was originally issued, and other revisions as deemed

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State and Local Governments

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Auditing Considerations

2.86 A significant consideration in auditing a government's financial statements is to understand the unique requirements for financial statement presentation. Auditors should understand GAAP for financial statement presentation as discussed in this and other chapters of this guide, as well as the engagement's reporting




objective as discussed in chapter 4  of this guide. Chapter 16  discusses the effect on the auditor's opinions in various situations when a government's basic financial statements are not presented in accordance with GAAP.

Compliance Requirements

2.87 As discussed in chapter 4 of this guide, the auditor should determine that a government's financial statements appropriately consider compliance requirements that have a direct and material effect on the determination of financial statement amounts. An example would be evaluating whether separate funds are maintained and reported when required by legal or contractual provisions, such as those arising from the entity's own constitutional or legislative provisions and from grants, contributions, and appropriations received from other governments and from nongovernmental entities. Legal and contractual provisions may sometimes use the terminology *separate funds* or *separate accounts*, when the intention of those provisions is a separate accounting for restricted resources, which does not necessarily require the government to establish separate funds or bank accounts for the resources. An example of a situation that may require evaluation of whether a separate accounting is intended is a debt agreement (covenant or indenture) that specifies that the entity maintain separate depreciation, bond reserve, and debt service "funds." Conversely, legal and contractual provisions may require a segregation of resources for a particular purpose but not use the terminology *separate funds*. In either case, the intent of the debt agreement should be determined. The auditor may need to consult legal counsel to evaluate whether legal or contractual provisions require the use of separate funds for financial reporting purposes. As noted in paragraph 2.28, there is no specific number of funds that a government should use.

Fund and Activity Classifications

2.88 One consideration in the audit of a government's financial statements is whether the government has properly segregated activities into funds and reported its funds in the proper fund classifications. Those classifications depend not only on compliance requirements, as discussed in paragraph 2.87, but also on

the GAAP definitions of the various funds, as discussed in paragraphs 2.28–.31 . Another consideration is whether a government's activities are properly classified as governmental or business-type in the government-wide financial statements. Those classifications depend on the GAAP definitions relating to those classifications as well as the government's fund classification of the underlying fund activity, as discussed in paragraph 2.12  and footnotes 7–8 .

Major Funds